

Torchlight Energy Resources Stock Appears To Be Significantly Overvalued

GuruFocus.com

March 28, 2021 • 4 min read

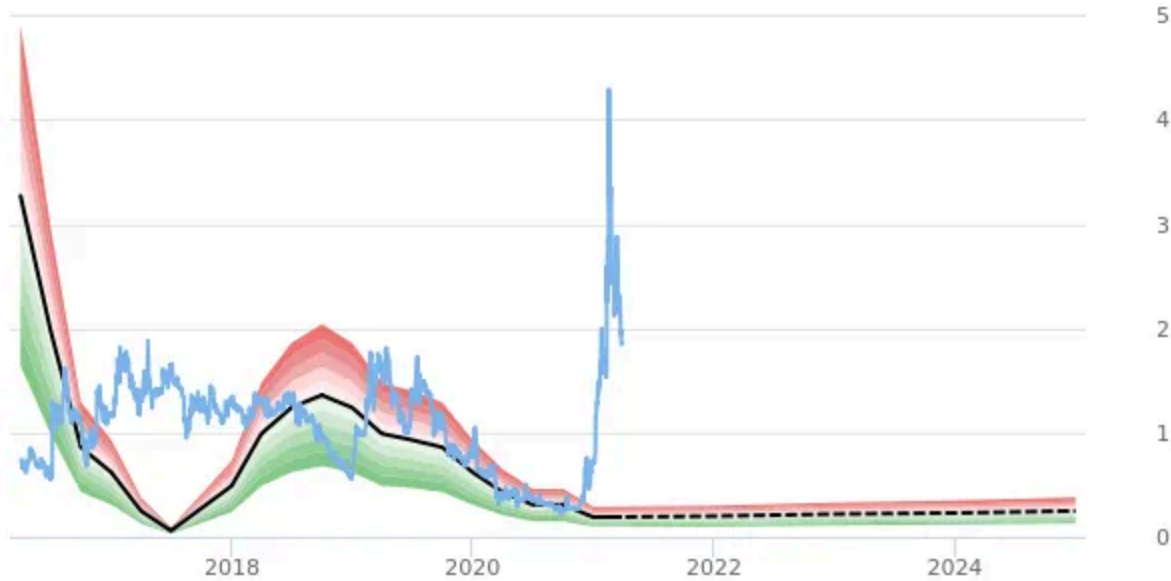


- By GF Value

The stock of Torchlight Energy Resources ([NAS:TRCH](#), [30-year Financials](#)) is believed to be significantly overvalued, according to GuruFocus Value calculation. GuruFocus Value is GuruFocus' estimate of the fair value at which the stock should be traded. It is calculated based on the historical multiples that the stock has traded at, the past business growth and analyst estimates of future business performance. If the price of a stock is significantly above the GF Value Line, it is overvalued and its future return is likely to be poor. On the other hand, if it is significantly below the GF Value Line, its future return will likely be higher. At its current price of \$1.85 per share and the market cap of \$268.8 million, Torchlight Energy Resources stock shows every sign of being significantly overvalued. GF Value for Torchlight Energy Resources is shown in the chart below.

- [Warning! GuruFocus has detected 8 Warning Signs with TRCH. Click here to check it out.](#)
- [TRCH 15-Year Financial Data](#)
- [The intrinsic value of TRCH](#)
- [Peter Lynch Chart of TRCH](#)

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| EXHIBIT A-2 |
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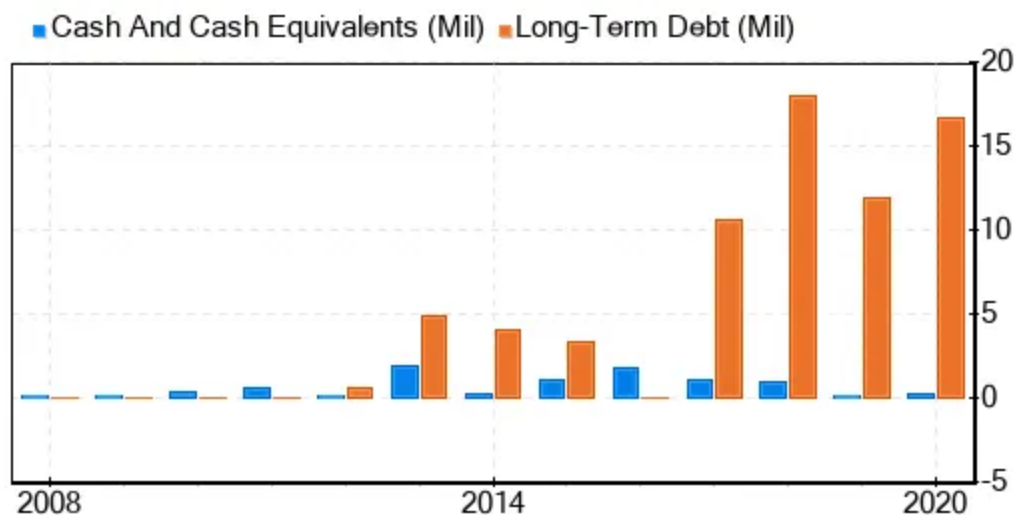


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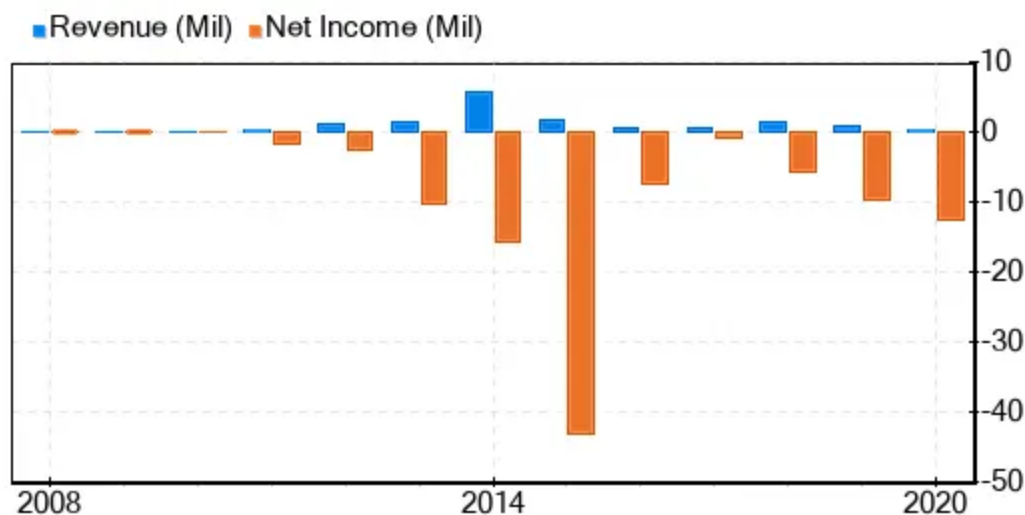
Because Torchlight Energy Resources is significantly overvalued, the long-term return of its stock is likely to be much lower than its future business growth.

Link: [These companies may deliver higher future returns at reduced risk.](#)

Investing in companies with poor financial strength has a higher risk of permanent loss of capital. Thus, it is important to carefully review the financial strength of a company before deciding whether to buy its stock. Looking at the cash-to-debt ratio and interest coverage is a great starting point for understanding the financial strength of a company. Torchlight Energy Resources has a cash-to-debt ratio of 0.01, which is in the bottom 10% of the companies in Oil & Gas industry. GuruFocus ranks the overall financial strength of Torchlight Energy Resources at 3 out of 10, which indicates that the financial strength of Torchlight Energy Resources is poor. This is the debt and cash of Torchlight Energy Resources over the past years:



Companies that have been consistently profitable over the long term offer less risk for investors who may want to purchase shares. Higher profit margins usually dictate a better investment compared to a company with lower profit margins. Torchlight Energy Resources has been profitable 0 over the past 10 years. Over the past twelve months, the company had a revenue of \$0.2 million and loss of \$0.15 a share. Its operating margin is -2237.63%, which ranks in the bottom 10% of the companies in Oil & Gas industry. Overall, the profitability of Torchlight Energy Resources is ranked 1 out of 10, which indicates poor profitability. This is the revenue and net income of Torchlight Energy Resources over the past years:



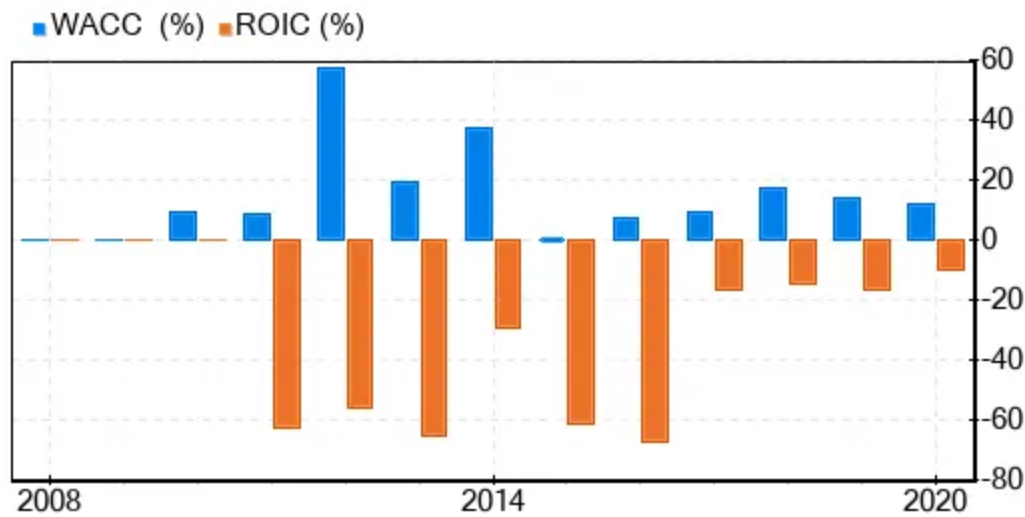
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Growth is probably the most important factor in the valuation of a company. GuruFocus research has found that growth is closely correlated with the long term performance of a company's stock. The faster a company is growing, the more likely it is to be creating value for shareholders, especially if the growth is profitable. [The 3-year average annual revenue growth rate](#) of Torchlight Energy Resources is -41.5%, which ranks in the bottom 10% of the companies in Oil & Gas industry. The 3-year average EBITDA growth rate is -145.2%, which ranks in the bottom 10% of the companies in Oil & Gas industry.

Another method of determining the profitability of a company is to compare its return on invested capital to the weighted average cost of capital. Return on invested capital (ROIC) measures how well a company generates cash flow relative to the capital it has invested in its business. [The weighted average cost of capital \(WACC\)](#) is the rate that a company is expected to

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pay on average to all its security holders to finance its assets. When the ROIC is higher than the WACC, it implies the company is creating value for shareholders. For the past 12 months, Torchlight Energy Resources's return on invested capital is -10.14, and its cost of capital is 13.22. The historical ROIC vs WACC comparison of Torchlight Energy Resources is shown below:



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In summary, the stock of Torchlight Energy Resources ([NAS:TRCH](#), 30-year Financials) shows every sign of being significantly overvalued. The company's financial condition is poor and its profitability is poor. Its growth ranks in the bottom 10% of the companies in Oil & Gas industry. To learn more about Torchlight Energy Resources stock, you can check out its 30-year Financials [here](#).

To find out the high quality companies that may deliver above average returns, please check out [GuruFocus High Quality Low Capex Screener](#).

This article first appeared on [GuruFocus](#).

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